MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017 / 2018 SESSION

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

16 OCTOBER 2017
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages including the cover page with **7 questions.**
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Students are not allowed to take this paper out of the examination hall/room.

Question 1 (19 marks)

a. A large investor wants your firm to help him sell a large block of 25,000 shares of a stock. The current market price of the stock is RM40.00 per share. When this block of stock hits the market, it should depress prices from their current level. Consequently, this investor is willing to sell to your firm at a price of RM35.00 per share.

i. If transaction costs are RM1.00 per share and the market price does not move, what profit will your firm make with this deal? (4 marks)

ii. If the market price drops to RM34.00 per share, what profit will your firm make? (4 marks)

iii. What is the largest price drop that will still enable your firm to make a profit? (4 marks)

b. What is needed for a perfect market to exist? (7 marks)

Question 2 (15 marks)

a. The firm you work for is trying to decide to file either a Chapter 7 or a Chapter 11 bankruptcy. If it chooses to reorganize, the following future cash flows (M = millions) are expected:

Year	1	2	3	4	5
Cash Flows (M)	RM4	RM6	RM7	RM5	RM9

The appropriate discount rate is 14 percent. The liquidation value of the firm is RM20M.

Answer the questions below.

i. What is the reorganization value? (7 marks)

ii. Should the firm file a Chapter 7 or a Chapter 11 bankruptcy? (2 marks)

b. What are some of the factors leading to financial distress? (6 marks)

Question 3 (12 marks)

a. What is agency theory? What is a principal-agent relationship? (4 marks)

b. Your assets have an equal chance of being worth either RM1,600 or RM800 at year's end. Your debt is RM1,000 and due at the end of the year. Now suppose you substitute your current assets for riskier assets that have the same expected value but a wider dispersion. The riskier assets now have equally likely payoffs of RM1,800 and RM600. With the same expected value, the asset substitution renders a zero NPV. Does this mean that you are just as well off ? (8 marks)

Question 4 (20 marks)

a. Aini Telecom and Ben Wiring will merge. Aini has a total market value (V_A) of RM275M (M = million), and Ben has a total market value (V_B) of RM240M. Their merger will lead to operating efficiencies and will produce a synergistic effect of RM15M.

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Answer the below questions.

i. Ignore expenses and the payment of a premium. What is the total market value of the merged firms? (4 marks)

ii. Ignore the payment of a premium. If the merger would entail expenses (E) amounting to RM5M, is there a net advantage to merging (NAM)? (4 marks)

iii. Given your answer in (ii), what will it take for there ***not*** to be a net advantage of merging? (4 marks)

iv. Who if anyone gains and losses in this merger? To what can any gains or losses be attributed to? (4 marks)

b. Name the situations in which a merger can be economically beneficial. (4 marks)

Question 5 (16 marks)

a. A firm has just accepted a project with a net present value (NPV) of RM19.91 million. The project has the following cash flows (in millions):

Time (t)	0	1	2	3	4	5	6
Cash flow (millions)	−70	20	30	30	20	20	10
Abandonment (millions)	n.a.	40	35	30	20	10	n.a.

If the cost of capital for this project is 13 percent, should the project be abandoned at t=1? (8 marks)

b. You are evaluating a proposed expansion project and you determine that the discounted cash flow-net present value (DCF-NPV) is –RM50,000. However, by investing today, you think you might have a future growth option to expand further but it would cost you an additional RM30,000 (in today's dollars) to have this option. If this future opportunity occurs, you estimate the present value of this option will be RM200,000. However, there's only a 50 percent chance of this occurring. Does the growth option make investment in the proposed project a positive NPV? (4 marks)

c. What does "soft" capital rationing refer to? (4 marks)

Question 6 (10 marks)

Explain the fundamental developmental stages of a product life cycle (***PLC***) with graphical illustrations. (10 marks)

Question 7 (8 marks)

a. What are uncertainty analysis and risk analysis. (4 marks)

b. List the **4** methods that may be used for the hedging of financial risks? (4 marks)

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